COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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February 2, 2004

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley
Auditor-Controller

SUBJECT: **REVIEW OF LE PETITE PREPARATORY, INCORPORATED–A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on Le Petite Preparatory, Incorporated (Le Petite or Agency) fiscal operations for the period July 1, 2002 through June 30, 2003. The Agency was licensed to operate three group homes with a total resident capacity of 18 children. The Agency received a total of $1,129,495 in foster care funds from the Department of Children and Family Services (DCFS). Le Petite's group homes were located in the Fourth District.

Scope

The purpose of our review was to ensure that Le Petite has complied with the contract and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures in providing services to children placed in the Agency's care. We also evaluated the Agency's compliance with applicable federal, State and County fiscal guidelines governing the disbursement of group home foster care funds.

Summary of Findings and Recommendations

The review disclosed substantial problems with the financial management of the agency. The following are the most significant deficiencies noted:

- Le Petite failed to pay $86,523 in payroll taxes, including fines and penalties. Payment of payroll taxes is a fundamental responsibility of any entity's management.

- Le Petite borrowed funds from its management, employees and other related parties and used program funds to pay unallowable interest costs. The interest amounts charged, $37,639, were excessive.

- Le Petite spent $28,800 of program funds on expenditures that it cannot explain. Their general ledger does not indicate the nature of the expenditures and there is no supporting documentation.

On October 21, 2003, we met with Le Petite's management to discuss the results of our audit. On December 31, 2003, Le Petite ceased operations as a group home.

Recommendation

We have recommended that DCFS work with County Counsel to collect the $119,665 in ineligible, unsupported or inadequately supported expenditures.

If you have any questions, please contact me or your staff may contact DeWitt Roberts at (626) 293-1101.

JTM:DR:RL
Attachment

c: Chief Administrative Office
David E. Janssen, Chief Administrative Officer
Claudine Crank, Budget & Operations Management Branch
Department of Children and Family Services
David Sanders, Ph.D., Director
Angela Carter, Deputy Director, Bureau of Administration
Edward Sosa, Interim Division Chief, Quality Assurance Division
Le Petite Preparatory, Incorporated
Raymond Dalton, Executive Director
Board of Directors
California Department of Social Services
Cora Dixon, Chief, Foster Care Audit Bureau
Sheilah Dupuy, Chief, Foster Care Rates Bureau
Lloyd W. Pellman, County Counsel
Public Information Office
Audit Committee
Commission for Children and Families

LE PETITE PREPARATORY, INCORPORATED
REVIEW OF GROUP HOME FOSTER CARE CONTRACT

BACKGROUND

The Department of Children and Family Services (DCFS) contracted with Le Petite Preparatory, Incorporated (Le Petite or Agency) to provide the basic needs and services for foster care children placed in the Agency's care. Le Petite was licensed to operate three group homes with a total resident capacity of 18 children. Le Petite's group homes were located in the Fourth District.

Under the provisions of the contract, the County paid Le Petite a monthly rate for each child, based on the Group Home Annual Rate determined by the California Department of Social Services (CDSS). During our review period, July 1, 2002 through June 30, 2003, Le Petite received a monthly rate of $5,234 per child placed in the group home. During this period, the Agency received a total of $1,129,495 in foster care funds from DCFS.

APPLICABLE REGULATIONS AND GUIDELINES

Group Homes are required to operate in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our review:

- Group Home Contracts, including Exhibit D, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations
- California Department of Social Services Manual of Policies and Procedures (CDSS- MPP)
- California Code of Regulations, Title 22 (Title 22)

REVIEW OF EXPENDITURES

Our review disclosed a total of $119,665 in ineligible and unsupported/inadequately supported expenditures. Details of these expenditures are discussed below.

Ineligible Expenditures

We identified $77,585 in expenditures which are ineligible under federal and State guidelines or the County's contract. Listed below are details of these expenditures.

Interest and Penalties

Sections 16 and 23 of the Circular identify fines and penalties and interest payments as unallowable costs. The Agency used $38,011 in group home funds to pay interest and penalties for failure to file Non-Profit Organization Returns (Form 990) on a timely basis and for failure to promptly pay payroll taxes (Form 941) to the IRS from September 1999 through March 2003. As of October 31, 2003, the Agency owed the IRS $86,523 in delinquent payroll taxes. This amount includes $11,793 in fines and penalties and $4,269 in accrued interest.

In addition, we noted that the Agency used $37,639 in group home funds to make ineligible interest payments to four individuals. These individuals included the current Executive Director, the former Executive Director's husband, one employee, and an employee's father. The Administrator indicated that these loans were necessary in order to meet payroll obligations. Each month the Agency would receive significant loans from these individuals then repay these loans back during the middle of each month when the DCFS funding was received by the Agency. The loan agreements required a flat 10% interest rate for a term of generally less than one month, which in our judgment, is high and unreasonable.

Other Fines and Penalties

During our review period, Le Petite also incurred $1,935 in other fines and penalties. Specifically, the Agency paid $1,530 in bank overdraft fees and non-sufficient funds penalties. In addition, the Agency incurred $261 in over-limit and past due fees on their credit cards and $144 in late fees from automobile leases, storage, and telephone charges. We question the amount of $1,935 as ineligible expenditures.

Unsupported/Inadequately Supported Expenditures

Per A-C Handbook, all revenues and expenditures shall be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed on audit. We identified $42,080 in group home expenditures that were either not supported or the support provided was inadequate.

- $28,800 identified on the general ledger as unexplained expenses. The Agency did not provide us with any support for these expenditures nor an explanation as to the nature of these expenditures.

- $10,710 in other expenditures involving purchases for food, kitchen and building supplies, clothing, vehicle expenses, office equipment and other activities that were not supported or inadequately supported by receipts or invoices.

- $2,570 paid to the former Executive Director. The Agency was unable to provide us with adequate documentation (original receipts, etc.) to support these expenditures. Therefore, we were unable to determine if these expenditures were business related.

Recommendation

DCFS work with County Counsel to collect the $119,665 in ineligible, unsupported or inadequately supported expenditures.